



CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

August 9, 2002

H.R. 3763 **Sarbanes-Oxley Act of 2002**

*As cleared by the Congress on July 25, 2002, and
signed by the President on July 30, 2002*

SUMMARY

H.R. 3763 (enacted as Public Law 107-204) establishes two new organizations—the Public Company Accounting Oversight Board (Oversight Board) to regulate the accounting industry and the Standard-Setting Body to write national standards for accounting practices. In addition, the act increases some penalties and imposes new civil and criminal penalties for violating the Securities and Exchange Act of 1934 and this act's restrictions on mail and wire fraud, securities fraud, tampering with evidence, and other offenses. Under H.R. 3763, any civil penalties collected by the Oversight Board will be spent on a scholarship program for accounting students.

Based on information from the Security Exchange Commission (SEC), CBO estimates that H.R. 3763 will increase revenues by about \$43 million in 2003 and \$407 million over the 2003-2007 period. CBO also estimates that H.R. 3763 will cause direct spending to rise by about \$36 million in 2003 and \$395 million during the next five years. Once the act has been fully implemented by 2005, CBO estimates that each year's revenue and direct spending effects will roughly offset each other.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 3763 on direct spending and revenues is shown in the following table. Only the estimated changes through 2006 are counted for pay-as-you-go purposes. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	36	82	89	92	96	99	102	106	110	114
Changes in receipts	0	43	87	89	92	96	99	102	106	110	114

BASIS OF ESTIMATE

Two aspects of H.R. 3763 will affect revenues and direct spending: the creation of the Oversight Board and the Standard-Setting Body, and the provisions of the act related to criminal and civil penalties.

Costs of Creating the Oversight Board and the Standard-Setting Body

H.R. 3763 creates an Oversight Board to oversee the accounting industry and a Standard-Setting Body to write accounting standards. Based on information from the Administration, CBO expects that the fees and the spending of these two entities would be counted on the federal budget because those two entities will carry out governmental, regulatory functions.

CBO expects that operating the Oversight Board, when fully implemented, will cost at least as much as similar activities that were previously performed by the Public Oversight Board (POB) and the Independence Standards Board, and through peer reviews administered by the American Institute of Certified Public Accountants (AICPA). Before they recently disbanded, the POB and the Independence Standards Board spent about \$8 million a year. The peer reviews administered by AICPA were conducted by other accounting firms. Based on information from AICPA, CBO estimates that such peer reviews could cost the Oversight Board at least \$50 million a year. Similarly, CBO expects that the annual costs of the Standard-Setting Board could approach the \$20 million previously spent each year by the Financial Accounting Standards Board, which formerly performed standard-setting duties. Therefore, once these two entities begin operations, which CBO assumes will take place in mid-2003, CBO estimates that they will cost about \$80 million a year, adjusted annually for inflation.

Under the act, the Oversight Board and the Standard-Setting Body will assess fees on public companies to cover their costs. For the purposes of this estimate, CBO assumes that these fees would be classified as governmental receipts (revenues). Since we expect that these

revenues would roughly offset the spending of these two organizations, CBO estimates that the increase in revenues also would amount to about \$80 million a year, adjusted annually for inflation.

Civil and Criminal Penalties

H.R. 3763 significantly raises the maximum penalties for violations of the Securities Exchange Act of 1934 and for mail fraud. Based on information from the SEC, the U.S. Sentencing Commission, and the Department of Justice, CBO expects the new higher penalties for these crimes will be assessed on average only once every two or three years. CBO estimates that the provisions of H.R. 3763 related to these two crimes will increase penalties by about \$2 million a year. In addition, the act will raise or create criminal and civil penalties for wire fraud, shareholder fraud, and other violations of H.R. 3763. CBO estimates that these provisions will cause penalties to rise by an additional \$1 million a year.

Criminal fines are deposited in the Crime Victims Fund and spent with a lag of about one year. CBO estimates that direct spending from the fund will increase by about \$3 million annually, beginning in fiscal year 2004.

Under the act, any civil penalties collected by the Oversight Board will be spent on scholarships for accounting students in undergraduate or graduate programs. CBO expects that the increase in direct spending will be less than \$500,000 per year.

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